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THE OMBUDSMAN

Report and Financial Statements
For the year ended 31 March 2003

德勤·關黃陳方會計師行

THE OMBUDSMAN

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

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AUDITORS' REPORT

TO THE OMBUDSMAN
(Established in Hong Kong under the Ombudsman Ordinance)

We have audited the financial statements on pages 2 to 7 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of The Ombudsman and the auditors

The Ombudsman Ordinance ("the Ordinance") requires The Ombudsman to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

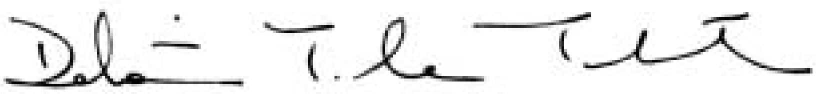
Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by The Ombudsman in the preparation of the financial statements, and of whether the accounting policies are appropriate to The Ombudsman's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of The Ombudsman's affairs as at 31 March 2003 and of its surplus for the year then ended, and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong.



5 June 2003

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2003

	NOTE	2003 HK$	2002 HK$
Income			
Government subventions		112,534,921	109,162,954
Amortisation of deferred income		3,359,677	-
Interest income on bank deposits		1,225,544	261,339
Other income		3,601	8,347
		117,123,743	109,432,640
Expenditure			
Operating expenses		86,527,214	87,065,543
Surplus for the year	4	30,596,529	22,367,097
Surplus brought forward		22,367,097	-
Surplus carried forward		52,963,626	22,367,097

THE OMBUDSMAN

BALANCE SHEET
AT 31 MARCH 2003

	NOTES	2003 HK$	2002 HK$
Non-current assets			
Property and equipment	6	100,291,309	76,978,907
Current assets			
Deposits and prepayments		790,574	527,602
Interest receivable		401,761	51,933
Bank balances and cash		74,726,592	37,151,636
		75,918,927	37,731,171
Current liabilities			
Accrued charges and other payables		17,725,578	10,992,356
Contract gratuity payable		2,070,289	819,267
Government subventions - deferred income	7	3,438,190	1,933,422
		23,234,057	13,745,045
Net current assets		52,684,870	23,986,126
		152,976,179	100,965,033
Surplus	8	52,963,626	22,367,097
Non-current liabilities			
Contract gratuity payable		2,987,646	3,194,483
Government subventions - deferred income	7	97,024,907	75,403,453
		152,976,179	100,965,033

The financial statements on pages 2 to 7 were approved and authorised for issue by The Ombudsman on 5 June 2003.

1. BACKGROUND AND FUNCTIONS OF THE OMBUDSMAN

The Ombudsman was established as a corporation sole by statute on 19 December 2001. The functions of The Ombudsman are prescribed by the Ombudsman Ordinance ("the Ordinance").

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Ombudsman has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Employee benefits

In the current year, the Ombudsman has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Ombudsman participates only in defined contribution retirement benefit scheme, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Income recognition

Subventions from Government are accounted for on a cash basis.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property and equipment

Property and equipment costing over HK$1 million individually are stated at cost less accumulated depreciation.

Newly acquired assets costing less than HK$1 million individually are written off in the year of purchase to the statement of income and expenditure account.

Depreciation is provided to write off the cost of property and equipment over their estimated useful lives, using the straight-line method, at the following annual rates:

Land and buildings	2.5%
Leasehold improvements	10%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income and expenditure account.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Deferred income

Subventions from government related to the acquisition of depreciable assets are presented as deferred income and released to income over the estimated useful lives of the relevant assets.

Impairment

At each balance sheet date, The Ombudsman reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Operating leases

Rentals payable under operating leases are charged to income and expenditure on a straight line basis over the lease term.

Retirement benefit costs

Payments to defined contribution retirement benefit plan are charged as an expense as they fall due.

4. SURPLUS FOR THE YEAR

	2003 HK$	2002 HK$
Surplus for the year has been arrived at after charging:		
Auditors' remuneration	15,000	10,000
Depreciation of property and equipment	2,844,497	21,096
Office rentals under operating leases	3,909,308	7,362,953
Property and equipment written off	9,374,164	26,282
Staff costs:		
Salaries and other allowances	57,842,501	65,561,100
Contract gratuity	4,071,317	4,970,697
MPF contributions	638,375	309,077
	62,552,193	70,840,874

5. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as The Ombudsman is exempt from taxation of the Inland Revenue Ordinance in accordance with the Schedule 1A Section 5(1) of the Ordinance.

6. PROPERTY AND EQUIPMENT

	Leasehold improvements HK$	Land and buildings HK$	Office furniture HK$	Office equipment HK$	Motor vehicles HK$	Computer equipment HK$	Total HK$
COST							
At 1 April 2002	-	77,000,000	1	1	-	1	77,000,003
Additions	11,456,898	14,700,000	-	-	1	-	26,156,899
At 31 March 2003	11,456,898	91,700,000	1	1	1	1	103,156,902
ACCUMULATED DEPRECIATION							
At 1 April 2002	-	21,096	-	-	-	-	21,096
Charge for the year	640,600	2,203,897	-	-	-	-	2,844,497
At 31 March 2003	640,600	2,224,993	-	-	-	-	2,865,593
NET BOOK VALUE							
At 31 March 2003	10,816,298	89,475,007	1	1	1	1	100,291,309
At 31 March 2002	-	76,978,904	1	1	1	1	76,978,907

7. GOVERNMENT SUBVENTIONS

The amount represented the fund granted by the Government for the purchase of office premises which is recognised as income on a straight line basis over the useful life of the asset, estimated to be 40 years.

	2003 HK$	2002 HK$
Government subventions	100,463,097	77,336,875
Less: Amount recognisable as income due within one year, shown under current liabilities	(3,438,190)	(1,933,422)
	97,024,907	75,403,453

8. SURPLUS

	2003	2002
	HK$	HK$
Surplus carried forward is derived from:		
Bank interest income and other income	1,498,831	269,686
Unutilised government subventions provided for:		
- Personal emoluments	35,432,252	13,466,126
- Departmental expenses	16,032,543	8,631,285
	52,963,626	22,367,097

9. CAPITAL COMMITMENTS

	2003	2002
	HK$	HK$
Capital expenditure in respect of the acquisition of property and equipment contracted for but not provided in the financial statements	187,250	-
Capital expenditure in respect of the acquisition of property and equipment authorised but not contracted for	-	52,880,000